

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 COLOMBO 001247

SIPDIS

DEPT PASS USTR FOR JROSENBAUM

STATE FOR EB

STATE FOR SA/INS

GENEVA PASS USTR

E.O 12958: N/A

TAGS: [ECON](#) [ETRD](#) [CE](#) [ECONOMICS](#)

SUBJECT: SRI LANKA QUALIFIES FOR EU GSP PLUS BENEFITS

REF: (a) 05 COLOMBO 965 (b) 04 COLOMBO 1604 (c) 04  
COLOMBO 1271

1. Summary: Sri Lanka is among a group of 14 developing countries which qualified for duty free access to European Union (EU) under the EU GSP plus scheme from July 1, 2005. As a result, most Sri Lankan exports from apparel (Sri Lanka's main export) to ceramics will be eligible to enter EU markets free of duty. Initial benefits will be limited for products with high import content, such as apparel, due to tough rules of origin (ROO) criteria. Nonetheless, the apparel industry welcomes the EU concession as a great boost to the industry currently facing increased competition from China. Sri Lanka is hopeful of more relaxed ROO criteria next year. End Summary.

2. The EU GSP plus scheme was given to about 14 poorly diversified (and therefore vulnerable) developing countries, subject to their ratification and application of 27 international conventions on human rights, labor standards, environmental protection and governance principles. According to a Sri Lanka Department of Commerce official, Sri Lanka has ratified most of the 27 conventions that need to be ratified before the GSP plus implementation. A couple of conventions still outstanding are to be ratified before the formal enforcement of the EU GSP plus scheme on January 1, 2006. It covers 7,200 items, which will enjoy duty free access to EU from July 1, 2005. It will be initially operational for three years, until 2008, except in the case of textiles and clothing which will be reviewed annually.

3. Sri Lanka's apparel sector has been looking forward to EU GSP plus to overcome Chinese competition following the expiration of the multi fiber agreement. The scheme provides duty free access to Europe compared with the MFN duty rates ranging from about 6.5% to 12%. (Sri Lanka's exports were charged duty at 4.5% to 7.2% due to general GSP concessions and preferences for protection of labor rights). However, since Sri Lanka imports most of its fabric, initial benefits from GSP plus will be limited. Apparel made from local and EU fabric can be exported to EU free of import duty. EU's tough ROO criteria require local value addition of over 50% for fabric sourced from the South Asia Region (i.e. SAARC countries). Fabric from other countries does not qualify as the ROO criteria require double transformation, i.e., EU rules of origin for cotton clothing require that the production process be from yarn to fabric to clothing. For knitted clothing, the production process needs to start from fiber onwards. These rules will exclude GSP plus benefits to apparel made from fabric sourced from China and other South East Asian countries, Sri Lanka's top suppliers of fabric. Therefore, Sri Lanka is likely to be slow to draw on benefits of the EU plus scheme. According to industry sources, some products like children's clothing, which require embroidery, washing and finishing, are likely to benefit from the new scheme. In addition, large manufacturers with vertically integrated businesses are also likely to benefit from the EU GSP plus as they will be in a better position to meet ROO criteria. With the EU in the process of reforming ROO governing the GSP scheme, Sri Lankan exporters might be able to make full use of the benefits of this scheme in 2006. Sri Lanka is hopeful that rules of origin will be flexible with local value addition requirement lowered to at least 35%. Sri Lanka also hopes that new rules will extend the benefits to fabric from China and South East Asia.

4. In addition to apparel, other major Sri Lankan exports that will qualify for duty free entry subject to ROO criteria include footwear, ceramic ware, flowers, fruits, vegetables, fisheries products, and rubber products. Some of these products will benefit greatly from the GSP plus due to high MFN duty rates on them in

the EU. The Department of Commerce has recently received applications for registration under the scheme from various sectors such as tuna, cashew, pineapple, gems, jewelry, fruits, tobacco and garments.

15. Comment: EU GSP plus, even with limited benefits, has been welcomed by the apparel industry, which is acutely aware of the need to face competition from China. The industry considers this concession as a great boost in the quota free era. The Joint Apparel Associations Forum (JAAF), the top textile industry federation, at a media briefing on July 6 expressed confidence on the potential of the EU GSP scheme to bring immediate relief to the industry. Together with US safeguards imposed on Chinese apparel, EU GSP can help the Sri Lankan garment industry to remain competitive in international markets. EU is the second largest market for Sri Lankan apparel after the U.S., with the EU accounting for 37% and U.S. accounting for 58% of exports. The two markets account for 95% of Sri Lankan apparel exports. EU GSP plus with duty free access to other Sri Lankan exports will also help diversify Sri Lankan exports to EU markets. End Comment.

Lunstead